

# Asia-Pacific Security Studies



## *China and Southeast Asia: ASEAN Makes the Best of the Inevitable*

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### Conclusions:

Southeast Asian countries generally exhibit little fear of Chinese political or military domination. Beijing appears to have made progress in persuading the region up to now that a stronger China will "never seek hegemony."

Given the history of China-ASEAN tensions and the natural inclination of smaller countries to fear the rise of a powerful country in their midst, the current Southeast Asian attitude toward the People's Republic of China (PRC) represents a significant success for Chinese diplomacy.

Nevertheless, Southeast Asia's present inclination to accommodate China is likely contingent on two conditions that currently prevail: (1) Beijing's behavior toward the region has been non-belligerent; and (2) U.S. presence in the region has recently increased. In the future, Southeast Asia's attitude toward China could change, and differing views about how to deal with China could divide ASEAN.

Beijing has demonstrated good neighborliness through constructive diplomacy; benevolent gestures such as offering economic aid and refraining from devaluing the Chinese currency after the 1997 financial crisis; participation in multilateral fora; and declining to strongly press its claims over disputed territory in the South China Sea.

In the economic realm, however, many Southeast Asians see threats as well as opportunities arising from China's rapid development and prosperity. A more prosperous China might buy more Southeast Asian exports and invest more capital there, but in the meantime China absorbs most foreign direct investment in Asia, leaving less for Southeast Asia, and poses tough competition for a wide range of Southeast Asian products.

A stronger China will challenge the United States for influence in Southeast Asia, but given the desire to balance large outside countries, the region's support for an American presence will increase as well.

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## **Introduction**

While somewhat wary of China, Southeast Asian countries are accommodating rather than resisting the growing power of its huge neighbor. Beyond the dormant Spratly Islands dispute, Southeast Asians register little anxiety about China's growing political and military weight. The region (i.e., Southeast Asia) is openly worried, however, about the economic aspect of the "China threat," fearing that a rapidly-developing China will lure away more investment capital and challenge Southeast Asian exports in key world markets.

China's involvement in Southeast Asia, both political and economic, is increasing. Beijing is an official ASEAN dialogue partner. The volume of Chinese trade with and investment in Southeast Asia is not yet great (some \$42 billion in China-ASEAN trade annually), but is rising at the rate of about 20 percent yearly. China works increasingly closely with Thailand, Vietnam, Myanmar and Laos in anti-drug trafficking operations. The Bank of China recently opened, or will soon open, branches in Indonesia, Singapore, Thailand and Malaysia. Perhaps symbolic of growing Sino-Southeast Asian ties is a plan to build a railway through mainland Southeast Asia to China. The initial line would start in Kuala Lumpur and pass through Bangkok, Cambodia and Vietnam en route to southern China. Eventually the network would extend to Laos and Myanmar and link up with the Trans-Siberian Railway.

While extending its influence in the region, China has courted Southeast Asia with active diplomacy, including numerous high-level meetings involving Chinese leaders such as Jiang Zemin's anointed successor Vice President Hu Jintao. Indonesian President Megawati Sukarnoputri, for example, visited China twice during her first year in office. In these meetings the Chinese have emphasized the benefits to ASEAN states of a stronger Chinese economy and assured the region that a powerful China will not demand special privileges. "China views all countries as equals, irrespective of their size," Hu recently said while visiting Malaysia. China has cultivated an image as a donor of economic aid to the region, although the amounts donated have been modest.

China and the other claimant governments in Southeast Asia have not yet agreed on a Code of Conduct for the disputed South China Sea territories. While refraining from signing a Code of Conduct, Chinese officials have promised to respect the "regional consensus" and have encouraged the other claimants to enter into bilateral agreements with China for joint development projects. Bilateral joint development is consistent with China's preference for negotiating with the other claimants individually rather than as a united group.

## **ASEAN Adapts to a Changing Strategic Landscape**

The ASEAN states have conflicting perceptions of their strategic interests. Taken as a whole, Southeast Asia is ambivalent about the involvement of larger outside countries in the region. Such involvement potentially threatens the independence of ASEAN states. At the same time, however, links with a great power can help maintain security in Southeast Asia, counter-balance the influence of other large external countries, and open access to global markets.

Some in the region, uncomfortable with growing Chinese clout, prefer that the United States remain relatively strong and actively engaged. If China's steady growth and geographic proximity make its influence in Southeast Asia inescapable, and even a unified ASEAN lacks sufficient weight to balance that of China, one solution is to rely on the U.S. to offset Chinese dominance. This is the position that Singapore, for example, espouses. Others favor a balance among strong outside powers and therefore welcome China closing the gap with the

United States. Some Southeast Asians feel their security is best served, and balance best maintained, by enlarging the number of larger powers interested in the region. This view would welcome India or Japan, as well, becoming players in Southeast Asian security. The dangerous flip-side of this situation, however, would be a rivalry between two major powers that would force the region's governments to take one side or the other, a choice they are loathe to make.

ASEAN struggles to be at once both exclusive and inclusive. On one hand, the need to respond effectively against potential exogenous dangers gives ASEAN an interest in strengthening its unity and regional integrity. Recent cooperation against international terrorist groups is a case in point. On the other hand, recognition of China's inescapable power and influence compels the ASEAN governments to attempt to enmesh China through organizations such as ASEAN Plus Three. ASEAN also needs, and works hard to secure, access to the capital and markets of countries outside East Asia.

Southeast Asians are sensitive to perceived attempts by China to intervene in their internal affairs. Several ASEAN states have large (and often disproportionately wealthy) Chinese populations, and preserving stable inter-ethnic relations is a delicate domestic political matter. In the past, China has angered Southeast Asian governments by suggesting that Beijing retains some responsibility for ethnic Chinese living in the region, including those whose ancestors left China generations ago. Many of today's Southeast Asian elites also remember that China supported communist insurgents in Southeast Asia during the early phase of the Cold War.

By the mid-1990s, China risked a backlash from an ASEAN disturbed by a combination of anxiety about China's rapidly-growing economic power, disappointment at China's cool attitude toward multilateralism, and alarm at China's assertive actions in the South China Sea (culminating in the Mischief Reef incident of early 1995). Beijing faced the possibility that anti-China sentiment would push Southeast Asian states toward an informal defensive coalition that attempted to balance against China.

Since then, the Chinese have clearly worked to foster goodwill toward their country in Southeast Asia. Besides visits by high officials, Beijing has participated in international gatherings, offered economic agreements and aid, and churned out assuring rhetoric that emphasizes China's constructive, responsible and non-threatening behavior and the benefits Southeast Asia stands to gain from a stronger China.

A decade ago, China seemed a reluctant participant in multilateral organizations. China now not only attends but also sponsors multilateral meetings, convincing most Southeast Asian observers that Beijing's basic attitude is one of willingness to communicate, participate and cooperate on most issues. In short, China has demonstrated respect for the "ASEAN way," which features frequent dialogue along with patient consensus-building and avoidance of open confrontation. China indeed appears to have evolved from its earlier position of suspicion toward multilateralism and grudging involvement out of fear of being isolated. Most Chinese foreign affairs specialists now appear to believe multilateralism is a useful tool for helping China shape its environment in ways favorable to China's interests. There is no indication Beijing is prepared to relinquish Chinese sovereignty to a supranational Asian community, but the same can also be said of ASEAN member states.

During the 1997 Asian financial crisis and its aftermath, China declined to devalue its currency, which would have helped China make economic gains at the expense of an ailing Southeast Asia. Beijing touted this decision as a magnanimous policy that demonstrated the kind of responsible regional leadership Asia could expect from a strong China.

For the most part, Southeast Asian observers judge that in recent years China has declined from meddling in the domestic affairs of ASEAN states. Indeed, China has invoked the principle of "non-interference" while championing the right of states such as Myanmar to implement authoritarian systems of government despite heavy criticism from foreigners with a universalist view of civil and political rights.

Most Southeast Asian observers accept the rise of Chinese power and regional influence as an inevitable part of the strategic landscape of the future. On the strength of Beijing's basically constructive behavior, ASEAN members also generally accept that China's main concern at present is its own economic development, and that this gives Beijing a strong incentive to create and maintain a peaceful environment in the Asia-Pacific region that is conducive to the free flow of trade and investment. Philippines President Gloria Macapagal-Arroyo recently said in an interview with the World Economic Forum's magazine *Worldlink*, "China is going to become a giant in the 21st century. So far China has been a responsible giant and we hope it will stay that way."

Nevertheless, although they are hesitant to publicly characterize China as a political or military "threat" for fear of aggravating Beijing and creating a self-fulfilling prophecy, many Southeast Asians remain wary of the long-term consequences of China growing into Asia's strongest power. Along with national disparities in size, wealth and ethnicity both within ASEAN and between ASEAN and China, the history of China's relations with Southeast Asia fuels lingering suspicions. Given the tributary relationship between the Middle Kingdom of antiquity and parts of the region, and modern China's obvious yearning to re-establish itself as a regional if not global great power, many analysts believe Beijing views Southeast Asia as part of a Chinese sphere of influence in which regional governments are expected to consider Chinese preferences and potential reactions in making their foreign policies. Those sharing this view would interpret China's current "charm offensive" in Southeast Asia as a preparatory phase reflecting China's recognition that the PRC has not yet achieved great power status.

### **Economic Opportunity, Economic Threat**

China's economic growth has repercussions for Southeast Asia that include both perils and opportunities. Beijing, of course, emphasizes the latter. Some regional leaders agree that the overall impact will be positive, calling China's booming economy an "engine" or "catalyst" of growth for Southeast Asia. Several benefits of a more prosperous China for ASEAN are foreseeable: Chinese tourists traveling to Southeast Asia and pumping money into local hospitality and entertainment industries; increased investment in Southeast Asia by newly-prosperous Chinese; and greater imports of ASEAN products, such as commodities or consumer electronics, by a China with more cash in its pockets. China's increasing appetite for energy supplies is a clear boon, for example, for Indonesia's gas, oil and mining industries. In theory, the sheer size of China's population might guarantee customers for virtually everything Southeast Asia produces.

The potential Chinese economic threat to Southeast Asia, however, is equally clear. Chinese officials commonly say China and Southeast Asia are economically complementary rather than competitive. This claim may apply to some members of ASEAN, but not all. Relatively well-developed economies such as those of Singapore and Malaysia might find profitable niches in high-tech industries such as computer components and biotechnology. The economies of Thailand, the Philippines and Indonesia, however, are largely competitive with China's and are at comparable stages of development.

China offers a labor pool that is relatively highly-skilled, inexpensive and disciplined (i.e., non-government labor unions

are illegal). Although China has achieved dramatic global success in exporting low-technology manufactures, China's size, diversity and rapid rate of economic development create the expectation that it will soon begin to dominate many other sectors as well, taking over markets that up to now have fueled ASEAN's prosperity. Some Southeast Asian analysts fear a future trade pattern in which the region supplies China with raw materials and food while purchasing Chinese manufactured goods. This would doubly disadvantage Southeast Asia, relegating it to less profitable sectors of production and undermining its own manufacturing industries.

Malaysia's Prime Minister Mahathir Mohamed argues that even with China exporting a wide variety of high-quality products at competitive prices, ASEAN states can continue to make money in the global economy. There are two reasons for optimism, he says. First, many Southeast Asian states will always have the inherent advantages of geographic location, well-educated and industrious workers, and a climate favorable to investors, including political stability and a workforce that rarely goes on strike. Second, Southeast Asian states can follow the lead of some European companies that earn high profits on "snob value" by finding a market niche for a prestigious brand name of a particular item.

Both of Mahathir's points of optimism are dubious. First, the advantages he enumerates (geographic location, a highly-educated and compliant workforce, and political stability), may apply to Malaysia and Singapore, but certainly do not apply to the region as a whole. Second, "snob value" must be earned in the marketplace. Many try, but few succeed. Southeast Asian firms cannot become the next Singapore Airlines or San Miguel Beer simply by deciding to do so.

China's entry into the World Trade Organization (WTO) is a possible mitigating factor, offering legal assurances of greater access for trading partners in Southeast Asia and elsewhere to China's domestic market. Moreover, China has an economic interest in promoting prosperity in Southeast Asia because ASEAN's people are potential buyers of Chinese products and services. Therefore ASEAN could expect that the Chinese themselves would curtail policies that threatened to seriously undercut ASEAN's prosperity.

Some Southeast Asians still fear that China's WTO membership would accelerate Chinese economic gains at the expense of Beijing's trade partners. To allay these fears, Chinese Premier Zhu Rongji proposed an ASEAN-China Free Trade Area (FTA). The FTA would lift tariffs on goods traded between China and Southeast Asia. ASEAN would get better terms of trade with China, and get them more quickly, than China's other WTO trade partners. Some analysts have calculated that an FTA could double international trade in Asia. Singapore and Thailand supported the idea. Vietnam, Indonesia and the Philippines, which feared that an onslaught of cheaper Chinese products would threaten their home industries, were less enthusiastic. ASEAN agreed in principle to begin working toward establishing FTA in ten years, on the condition that ASEAN economic weaklings Myanmar, Laos and Cambodia get special concessions. A final decision on establishing the FTA is due at the ASEAN Plus Three meeting in Cambodia in late 2002.

ASEAN has also discussed the possibility of a free trade area with Japan. ASEAN representatives told Tokyo a free trade agreement with Japan would require the Japanese to loosen their restrictions on agricultural imports. This is a politically difficult proposition for Japan's Liberal Democratic Party, which relies heavily on the support of Japanese farmers. In contrast, China has agreed to an early liberalization of agricultural imports from ASEAN countries.

Another economic peril for Southeast Asia is China soaking up a limited pool of foreign direct investment (FDI). In 1990, about 60 percent of FDI in Asia went into Southeast Asia, and 20 percent into China. China now gets 80 percent. Investors

will pour an estimated \$50 billion into China this year. Chinese are quick to argue that China itself will help make up this investment shortfall in Southeast Asia as it becomes more prosperous. China, however, contains tens of millions of unemployed or underemployed workers and large areas of relative under-development, especially in the western and northern parts of the country. Since these domestic needs will likely absorb a large proportion of available Chinese investment capital for the foreseeable future, it is uncertain how much the PRC will invest in Southeast Asia.

The region can take some comfort in the hope that China's attractiveness to foreign investors will not persist indefinitely. With prosperity, labor and overhead costs in China will inevitably rise, making foreign direct investment less profitable. Eventually this capital would leave China in search of countries with lower costs of doing business. This suggests that although ASEAN countries may lose out in the short term, they are likely to recoup at least some of these losses in the longer term.

### **Policy Implications**

Rising Chinese influence has the potential to exacerbate disunity within ASEAN. Since the governments of Southeast Asia have different attitudes toward China, some will feel greater anxiety than others about rising Chinese economic penetration and political influence. This may make a unified ASEAN strategy increasingly difficult to maintain and may ultimately result in parts of ASEAN taking different paths. As an example, in July 2002 the ASEAN governments agreed to implement the "10 minus X" principle, allowing member states to individually liberalize certain sectors of their economies without waiting for the rest of the ASEAN membership to follow suit. Increased competition from China motivated this move, which not only departed from ASEAN's established practice of all ten members making policy adjustments in unison, but also prepared the way for a further widening of the economic gap between the developed and the less-developed Southeast Asian states.

Japan remains an ASEAN dialogue partner as a member of the ASEAN Plus Three grouping. Nevertheless, Japan's ongoing economic weakness has reduced Tokyo's salience as an economic and political player in the region. This has created additional space not only for China, but also for India. Indeed, the beginnings of a nascent rivalry between China and India in Southeast Asia are visible, although China enjoys great advantages in this potential contest. Through its current "look east" policy, New Delhi seeks to strengthen both economic and political ties with Southeast Asia. India is participating with

Southeast Asian navies in anti-piracy patrols in the Strait of Malacca and the South China Sea, and is also opening special economic zones intended to lure investment from Singapore. Like China, India sees the region as an important market and a source of raw materials and investment capital. As China's desire for influence in South Asia annoys India, China similarly will not welcome New Delhi's inroads into an area the Chinese view as part of their traditional sphere of influence. ASEAN can potentially gain from competition between China and India for influence in the region. In April Indonesian President Megawati Sukarnoputri secured \$147 million in Indian financial assistance to build railroads in Indonesia. Countering China's widely reported assistance to Burma, Indian Prime Minister Atal Behari Vajpayee recently said India would help construct roads in Burma and Thailand that would link these countries with India.

China is taking its place alongside Japan and the U.S. as a major economic power in Southeast Asia. Increased Chinese economic clout in Southeast Asia potentially strengthens China's political influence. This is a natural outgrowth of China's rising relative national power. It is also at least partly explained as an intentional strategy to improve China's position vis-à-vis Japan and the United States. Chinese economist Zhang Yunling, head of the Institute of Asia-Pacific Studies at the Chinese Academy of Social Sciences, described the FTA as a "counterbalance" against "unilateral United States policy." Nevertheless, attempting to thwart this process is neither feasible nor desirable for the United States. China has utilized normal economic and diplomatic activities to extend its influence in the region, and Southeast Asian states have responded voluntarily. There is no basis for Washington attempting to rally regional support to keep out PRC influence. America must therefore accept the probability of a decline of U.S. influence in Southeast Asia relative to China's.

Before September 2001, Washington showed little interest in Southeast Asia. The campaign against terrorist groups linked to al Qaeda spurred a quick infusion of American involvement in the region. This strong U.S. re-engagement with Southeast Asia may help account for the region's generally relaxed attitude toward the growth of China's power and influence. A strong American presence balances the rising Chinese presence. A year ago, with the U.S. less attentive to the region, Southeast Asians might have reacted with greater apprehension to the prospect of deeper PRC involvement. The relatively high degree of U.S. interest in Southeast Asia since 9-11, along with China's recent record of mostly non-threatening behavior, leads Southeast Asian governments to conclude that for the time being, they should make the best of China's expanding influence rather than resist it.

The Asia-Pacific Security Studies series presents research and analysis by security specialists, and contributes to the Asia-Pacific Center for Security Studies' (APCSS) mission to enhance the region's security discourse. The general editor of the series is Lt. Gen. (retired) H.C. Stackpole, President, APCSS.